THE BREAKDOWN OF THE EMPLOYMENT SYSTEM.

By

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There is not one person in a hundred who, if offered a stable income of, say, £500 a year, would not accept it in preference to an offer of employment at the same pay. That is to say, the cry for employment is an artificial cry—what the unemployed mean is that they want purchasing power, which we usually refer to as money.

A continuous supply of money is associated inseparably, in the minds of the vast majority of the population, with employment. It is my opinion that no solution of the present profoundly disquieting situation, which pervades the whole world, will ever be reached until a sufficiently influential body of opinion can be brought to examine this relationship, not as a moral relationship, but as a practical device for carrying on the world's business, to be rejected or retained only as it serves that end. In other words, *employment is not an objective of a co-operative production system—it is an incident, a bye-product*. Yet the Labour Party, in criticising the proposals put forward by me for the Mining Industry, say that "whether sound or not, the scheme is fundamentally opposed to the principles for which the Labour Party stands 'because its advantages are achieved' without freeing themselves (the Labour Party) from the tribute payable to the other shareholders."

The whole question of the soundness of this attitude turns on its workability. The *unemployment* problem can be solved to-morrow, exactly as it has been solved in Germany, where there is no unemployment. If you insist on being provided with work, I feel sure you will be accommodated.

But you must not complain if the solution raises up exactly the same problems as exist there, because the fundamental

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fact, the fact on which the whole situation turns, is that if you set the whole of the available labour to work on the available real capital (tools, land, etc.), you will have an output with which nothing but organised destruction, in the shape of war, can cope. Mr. Bonar Law said in so many words, to the recent Labour deputation on the subject of unemployment, that the situation was due to our financial policy. He was right. He also defended that policy. In that, he pronounced the doom of his Government.

Now, I want to make it clear, if I can, that Mr. Bonar Law, and, let us say, Mr. Ramsay MacDonald, do not really differ in essentials at all. They are merely exponents of two sides of the same problem, and for that reason there is no hope for us in either of them.

Mr. Bonar Law, who understands orthodox finance, represents those who, on the whole, are most afraid of the problems which are arising in Germany. Mr. Ramsay MacDonald, who doesn't understand any sort of finance, ostensibly represents those who are most afraid of the problems which are affecting all those who lack money, which is the salient characteristic of the deflationist policy. Neither of them, I think, either sees the problem as a whole, or is prepared to deal with it as a whole. That is the defect of our system.

Shortly, the characteristics of inflation are: Enormous increase in production, fantastic rises in prices, speculation, submergence of the professional and so-called cultured classes, centralisation of economic power, and industrial serfdom. Saving becomes impossible. There is little unemployment, at any rate for a time; but if you *are* unemployed, you starve immediately. Your immense output cannot be internally absorbed, for reasons with which we shall deal presently; and the urgent necessity of markets means certain war, sooner or later, and the greater the inflation the sooner the war must come. In the meantime, however, you become more capable of the immense output which war demands; and your centralised industrialists, who do not expect to line the trenches, regard the prospect with complacency.

The characteristics of deflation are familiar. Somewhat lower prices, lower standard of living, industrial stagnation and unemployment, bankruptcies, grinding taxation, and class cleavage, are some of them. They are all related; and it is probably not by accident that such emphasis is placed

on one of them alone, as though it stood by itself—I mean, unemployment.

And it must be borne in mind that when we speak of an unemployment problem, we are much too apt to consider only statistics, official or otherwise, in regard to those persons who are totally unemployed, and to omit or give wholly insufficient weight to the much more important consideration of general under-employment or employment in connection with production of the most dubious utility. To put the matter another way: the real significance of unemployment is not to be gauged by any figures based on the mere counting of heads; it can only be gauged by a careful estimate of the production of the nation at the present time, as compared with the production of the nation in, say, 1918-1919—a period in which 75 per cent. of the available population was withdrawn from productive activity.

It is by no means without significance in this connection that "Kemp's Mercantile Gazette" states that the bankruptcy during 1922 amounted to 5,109, an increase of 1,361, or 27 per cent., over the preceding year. That is to say, the productive system is admittedly in the hands of people who say, quite openly, that its first objective is employment. They claim, and probably with justice, that, by natural selection, they are the most competent people to run the system so that it will attain its objective, and it is quite incontestable that they have failed, and will continue to fail, under a deflationist policy. On the other hand, a general resort to inflation, of the ordinary kind, means the end of civilisation.

Now, failure in any matter of common interest is a legitimate target for criticism, and there is a storm of criticism on this subject at the present time; and, as might be expected, and again with reason, this criticism is loudest from those who are most vitally affected by the failure. But the point to be grasped is that the criticism, either directly or by implication, almost invariably attacks the capacity of those in superior executive positions within the present system, and any constructive suggestions from such sources really amount to a replacement of the present executives by some device—either by election or otherwise—from the ranks of the critics, in favour of more able executors, who, it is assumed, would be able to make the system work. I am not here in any way to defend those persons who are referred to as "captains of industry"; in many cases they are men of quite extraordinarily narrow abilities, but I have, for my

own part, no doubt whatever that any attempt to replace them *en masse* is quite unpracticable. If you could imagine any of the orthodox socialistic schemes to come into operation in this country—which I am quite sure they never will —it is a matter of almost mathematical certainty that within five years you would see about 75 per cent. of the same persons filling what would be, in essence, the same executive positions under a different official title.

If you accept these statements as being a fair presentation of the situation, you will agree that only one conclusion can be drawn from them, and that is, that it passes the wit and the capacity of human beings to obtain generally satisfactory results from the existing financial system, and that no mere change in persons could be expected to produce an acceptable result.

If, therefore, we refuse to be content with the present situation, and are not prepared to be labelled as, for instance, the Labour Party has been labelled, "an organised complaint," it is absolutely essential to understand what is the vital defect in the system which produces these results, and having understood it to make constructive suggestions for its modification.

It is to be hoped that it is clear that the vast majority of people only regard employment as a means to an end, and that end is the attainment of a sufficient supply of goods and services; that, at any rate, an enormous step forward would be made if this desire for goods and services were met, even if the alleged demand for employment remain for the moment unsatisfied.

Is this a practicable proposition? I have no doubt whatever that it is wholly practicable. I do not propose to numb you with a mass of statistics on production—such statistics are easily available to people who like that sort of thing—I do, however, ask you to take it from me that one-tenth of the available labour, working short hours but with the whole of its attention directed solely to the objective of the most efficient production, could supply all the general demands of the population of this country, either by direct production, or by exchange of proper methods for the production of other countries, in respect of articles which cannot reasonably be produced at home; in other words, production, as a problem, has been solved long ago.

There is not a single country where western methods of production are in operation, in which there is any technical productive problem at all, either agricultural or otherwise;

and the problem we have to solve is a problem of distribution. Organised distribution, whether it be the allotment of seats in a theatre, in a railway train, or of benefit in a dividend-bearing commercial undertaking, is nearly always in some form or other a matter of tickets, and it is reasonable to conclude that if this is so, and our problem is one of unsatisfactory distribution, the first direction in which to turn our attention should be to the working of the ticket system. The generalised ticket system, under which modern distribution is carried out, we call money, and it is in connection with the money system that we may expect to find what we are looking for. In short, there exists in the world to-day a producing system which has an immense latent and *undrawn on* capacity to deliver goods (of which unemployment is only the most obvious indication), and there is, on the other hand, an immense body of unsatisfied consumers; while standing between and outside both, and run with an objective entirely separate from the interests of either production or consumption, is a money system, that is to say, a banking and financial system.

In order to grasp the reality of this statement, it is necessary to be clear as to the origin of what passes for money, and to understand the remarkable powers which are vested in the banking system and the financier. Consider first, legal tender, which, in this country, consists of gold, silver, and copper coinage, and Treasury Notes, to the approximate value of, say, £400,000,000. It may be noticed, in passing, that this money has only value by the consent of the community of individuals we call the nation; that is to say, by their willingness to accept it in return for goods and services. It is not noticeable, however, that fresh creations of legal tender (which can only have value by popular consent) are divided amongst the population as, and when, such legal tender is created. Leaving that issue for a moment, it will at once be obvious, from a superficial examination of the accounts of the banks, that there is a good deal more money in the country than there is legal tender. The deposits of the " Big Five " banks and their affiliations alone represent about £2,000,000,000, and overdrafts and bills discounted represent about £1,000,000,000 more. For practical purposes, all this money is homogeneous—the average individual would draw no vital distinction between ten pounds in his pocket-book and ten pounds in his current account with one of the great banks. But it must also be obvious, on a little

consideration, that something curious must have happened to enable, say, £400,000,000 of legal tender to become at least £3,000,000,000 of money, because, as far as can be seen on a cursory examination of the phenomenon, however much £400,000,000 changes hands in the course of trade, it still remains £400,000,000. Something curious does happen—it is the creation of new money, which ranks equally with legal tender as purchasing power, by banks and financial institutions. One method by which this result is brought about will serve as an example of the remainder.

Imagine a new bank to be started—its so-called capital is immaterial. Ten depositors each deposit £100 in Treasury Notes with this bank. Its liabilities to the public are now £1,000. These ten depositors have business with each other, and find it more convenient in many cases to write notes (cheques) to the banker, instructing him to adjust their several accounts in accordance with these business transactions, rather than to draw out cash and pay it over personally. After a little while, the banker notes that only about 10 per cent. of his business is done in cash (it is really only .7 of 1 per cent.), the rest being merely book-keeping. At this point Depositor No. 10, who is a manufacturer, receives a large order for his product. Before he can deliver, he realises that he will have to pay out, in wages, salaries, and other expenses, considerably more "money" than he has at command. In this difficulty he consults his banker, who, having in mind the situation just outlined, agrees to allow him to draw from his account not merely his own £100, but an "overdraft" of £100, making £200 in all, in consideration of repayment in, say, three months, of £102. This overdraft of £100 is a credit to the account of Depositor No. 10, who can now draw £200.

The banker's liabilities to the public are now £1,100; none of the original depositors have had their credits of £100 each reduced by the transaction, nor were they consulted in regard to it; and it is absolutely correct to say that £100 of new money has been created by a stroke of the banker's pen. At this point it must be realised, firstly, how complete and irresponsible is the control of the banker over the situation. His grant of the loan, if made, is entirely *ex gratia;* there is no appeal from it; two of the indispensable parties in the transaction, the consumer and the other nine depositors, are never heard in the matter at all; and the reasons operative in guiding the decision are not the same as

[illegible] of any other party in the case. If, collectively, the bankers refuse the loan, both the producer and consumer are helpless. It is nearly irrelevant to the difficulty which arises out of this situation that bankers may be, and in many cases are, persons of great ability and probity. Secondly, it should be noted that the situation in which the financier finds himself is not one of his own making, and only exists by general consent. At the moment the public ceases to back him with its credit, which is the commodity in which he deals, his power goes. For instance, at the time at which this is written (September), Messrs. Krupps, at Essen, are issuing their own currency in denominations up to 500 marks. It is obvious that a concern which can issue its own currency and get it accepted does not need to go to a bank for money. Absolutely the only qualification necessary to its acceptance is that it shall be effective in exchange for goods and services; which involves, amongst other things, considerations of price.

As the situation stands at present, the banker is in an unique position. He is probably the only known instance of the possibility of lending something without parting with anything, and making a profit on the transaction, obtaining in the first instance his commodity free. But it is necessary to follow the transaction a little further. Depositor No. 10, having, happily, obtained his overdraft, pays it out to his employees in wages and salaries. These wages and salaries, together with the banker's interest, all go into costs. All costs go into the price the public pays for its goods, and ***consequently, when Depositor No.*** 10 ***repays his banker with*** £102 ***obtained from the public in exchange for his goods, and the banker, after placing*** £2, ***created by himself, to his profit and loss account, sets the*** £100 ***received against the phantom credit previously created, and cancels both of them,*** there is £100 worth more of goods in the world which are immobilised—of which no one, not even the banker, except potentially, has the money equivalent. The position thus created is remarkable. Eventually, the manufacturer must look to the public, the consumer, for his demand, and the only form of demand he can recognise is a demand backed by money (called, for short, effective demand). Since the consumer, who originates the demand, never has sufficient money to back his demand, every " order " has to start with the banker (whose objective is not that of the consumer), percolate through the industrial system, and months or years

afterwards reach the consumer, who should have initiated it, in a form which, by common consent, is unsatisfactory.

If this process has been thoroughly grasped, and it is admittedly not very easy to grasp, it will be seen that just as the manufacturer only receives a loan from the bank, which has to be repaid, so also does the workman, who is paid by this manufacturer, only receive a loan in the form of wages, which loan is repaid by him in the form of prices, and yet this loan, while cancelled in the books of the bank, is not cancelled in general prices; that is to say, *the workman's cost of living to-day is quite inevitably added to his cost of living to-morrow.*

I have no hesitation in saying that this situation I have attempted to outline to you is absolutely the core of the world crisis through which we are passing. To condense the situation into a paragraph, what the population of the world wants, and is determined to get, is a sufficiency of goods and services; there is no lack of these goods and services, either actual or potential, but they cannot be obtained except through the agency of money, of which there is a lack. This lack of money is, in no sense, natural, in the sense of being unavoidable, but is wholly artificial, and is the result of a deliberate policy in the operation of the money system, although that policy may not perhaps be wholly conscious.

No solution of the myriad of apparently unconnected social, industrial, and sociological problems can be found, unless we can bring ourselves to realise that 95 per cent. of so-called crime is committed with the object of acquiring money, whether it be through the cocaine traffic or the abuse of public confidence in such cases as the failure of the City Equitable Insurance Company; that the cry for employment has no realistic basis other than an acceptance of the assumption that money can, or should only, be distributed through the agency of employment; and that, owing to its scarcity, the possession of money, in the sense of a claim on goods, confers upon its possessor the power to arrange the lives of others.

If you accept the foregoing statement as to the inadequate supply of money together with the explanation of the source out of which money is created (and you have only got to understand these statements to be in the position of being obliged to accept them), it is a short step to the realisation

or, at any rate, the general principles along which the solution of the difficulty must be found. In the first place, we have to realise that there exists, and is being exercised for anti-social purposes, a monopoly of the ticket supply, without which distribution cannot be carried on. That monopoly has to be broken. How it is to be broken is a very serious problem, a problem which has got to be faced and solved, or the civilisation with which we are acquainted will shortly cease to exist. Having broken that monopoly, we have to make such arrangements as will automatically prevent its re-establishment. Such arrangements cannot possibly be allowed to depend on a mere question of personnel. Fortunately, this requirement, which at first sight seems difficult of satisfaction, is, I think, interlocked with the second great objective to which we have to address ourselves, and that is, the adjustment of the rate of issue of the tickets or money to correspond with the rate of production of goods, so that there shall be a continuous relation between tickets and articles, and that there shall be neither an undue quantity of tickets, nor, as is at present, a lack of them.

You will remember that we ascertained that prices were too high in relation to purchasing power. It would seem, at first sight, that we could either issue more purchasing power or arbitrarily reduce prices, but the matter is not quite so simple as that. If, having broken the banking monopoly of credit, we simply proceeded to give everyone large overdrafts, it is fairly well understood by now that all we should do would be to create a feverish boom in production, accompanied by a spectacular rise in prices. That, of course, is exactly what is happening in Germany to-day. If, on the other hand, by means of a rigid government control, we arbitrarily reduced prices, it is equally obvious that we should strangle production, cause widespread bankruptcy, and probably arrest our sales of commodities; but if we are in a position to say to the manufacturers and retailers, "we will assist you to sell to the public at lower prices than you can sell without our assistance," we produce a series of results which, I think you will agree on examination, are remarkable. In the first place, we benefit the public, as individuals, by lowering prices, and thus enable them at once to get goods and services which, we agree, they demand and intend to have; but even without going any further, it will be seen that we also benefit the trader to whom we extend this assistance because, as he is enabled to undersell any competitor not so assisted, his turnover increases, and thus his business,

from every point of view, flourishes and expands. For the moment, at any rate, we solve the alleged problem of unemployment, because the immediate effect of this increased flow of business is to stimulate employment. These advantages alone are so outstanding that it would seem that we have only to be clear as to the existence of a source from which such assistance can be made, to have the necessary justification for action along these lines. We have such a source, and that source is the same source from which the banker, now, for his own purposes, creates additional purchasing power through the medium of overdrafts, bills discounted, etc. We apply a portion of the created credit to the reduction of prices, and a portion to the creation of purchasing power through the distribution of dividends on Communal Credit Bonds—in fact, given the control of the mechanism of credit, we can make the material conditions of this country exactly what we wish.

The most grotesque objections have been raised to issues of credit in the manner I have just briefly outlined; in fact, it is a remarkable thing that large numbers of persons, who cannot honestly be suspected of direct connection with the banking system, seem feverishly anxious to ridicule it. The first objection raised is that it would raise prices, a really remarkable statement in view of the fact that the suggested use of credit is absolutely contingent on a fall of prices. If cornered in regard to this objection, these persons say that it would result in a queue of the type familiar during the latter years of the first world war. The answer to this is, of course, that again the suggested credit issue is contingent on the ascertained fact that potential production is always in excess of consumption. It will usually be found that when the quasi-practical objections have thus been disposed of, the objector discloses his real position, which is what he calls a moral objection, that he hates the very idea that anyone should be comfortable in this world without being made very uncomfortable in the process. Some years ago I had the experience of discussing these proposals with Mr. and Mrs. Sydney Webb, and, after disposing, one after the other, of the objections raised to the feasibility of the scheme, I was met with an objection with which, I confess, I found myself wholly unable to deal, and I recognise that objection in the Labour Party report on the Douglas proposals. The words in which it was made to me are worth putting on record. They were: " I don't care whether the scheme is sound or not; I don't like its object." That is a clear-cut issue; it is

a [illegible] which goes right down to the bed rock of human philosophy. It claims that human nature is essentially vile, and can only be kept within bounds by being kept so busy that it has no time to get into mischief.

I have no doubt whatever that this philosophy is at the root both of the present economic system and of all the socialistic schemes of nationalised economic and social administration which have culminated in the Russian Soviet Republic. The connection between a section of American (Wall Street) finance and the Russian Revolution is clear and indisputable. For those who are interested in the subject, I would recommend a perusal of the series of articles reprinted from the "Dearborn Independent," by Mr. Henry Ford, of motor-car fame, under the title of "The International Jew."

The financial power which enabled Japan to vanquish Russia was exactly the same as that which wrecked the Russian Empire and protracted the first world war from 1915, when it otherwise would have been finished, to 1918, at the cost of millions of lives.

It is, of course, obvious that 98 per cent. of the persons who are made the tools of this philosophy and the policy which proceeds from it, are more or less innocent victims of something which they wholly misunderstand, but the awful gravity of the situation is not reduced by this fact. I would commend, therefore, to you a most serious consideration of this issue, whether you wish the economic system to be made the vehicle for an unseen government, over which you have no control, which you did not elect, and which you cannot remove so long as you accept its premises; or whether, on the other hand, you are determined to free the forces of modern science, so that your needs for goods and services may be met with increasing facility and decreasing effort, thus, in turn, permitting humanity to expend its energy on altogether higher planes of effort than those involved in the mere provision of the means of subsistence.

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